

# RBI's Revised Framework for Agency Business and Third-Party Product Distribution by NBFCs

30 June 2026

## Introduction

On 15 June 2026, the Reserve Bank of India (RBI) issued, *inter alia*, the Reserve Bank of India (Non-Banking Financial Companies – Undertaking of Financial Services) Second Amendment Directions, 2026 (Amendment Directions), revising the framework governing agency business and third-party product distribution by non-banking financial companies (NBFCs) (including housing finance companies (HFCs)), as set out under the Reserve Bank of India (Non-Banking Financial Companies – Undertaking of Financial Services) Directions, 2025 (Existing Directions). We have set out below our analysis of the key changes introduced under the Amendment Directions.

## Background and context

The Amendment Directions form part of a broader package of 17 entity-specific notifications issued on the same date, spanning all categories of RBI-regulated entities.

The package comprises two parallel tracks: (a) amendments to the master directions in relation to the undertaking of financial services applicable to each regulated entity respectively; and (b) amendments to the master directions governing responsible business conduct (RBC) applicable to each regulated entity respectively, which introduce comprehensive requirements on advertising, marketing, sale, and conduct, including an express prohibition on compulsory bundling, a codified mis-selling framework with mandatory refunds, and regulation of dark patterns.

The Amendment Directions come into effect on **1 January 2027**.

## Unified Definition of Agency Business

Under the Existing Directions, there was no consolidated definition of "Agency Business". Insurance distribution, mutual fund distribution, and pension fund services were each governed under separate product-specific regimes with distinct regulatory conditions. The Amendment Directions introduce a unified definition, where agency business is an arrangement where the NBFC acts as an agent of a third-party product or service provider (TPPSP), without risk participation, to facilitate the sale of the TPPSP's financial products to the NBFC's own customers. The scope expressly encompasses marketing, sales, promotion, initial point of contact for grievance redressal, and after-sale services. Under such arrangements, the NBFC can enter into a formal agreement with the TPPSP for sale of only regulated financial products or services. This replaces multiple product-specific regimes with a single agent-principal framework.

## New Definitions and Regulatory Perimeter

The Amendment Directions introduce three new defined terms:

- (a) Regulated financial products and services. This refers to products and services falling under the regulatory ambit of RBI, the Securities and Exchange Board of India (SEBI), the Insurance Regulatory and Development Authority of India (IRDAI), the Pension Fund Regulatory and Development

Authority (PFRDA), or overseas regulatory authorities including the International Financial Services Centres Authority (IFSCA).

- (b) Third-party Product and Service (TPPS). Defined by cross-reference to the RBI (Non-Banking Financial Companies – Responsible Business Conduct) Directions, 2025 (NBFC RBC Directions), TPPS refers to products distributed by an NBFC on behalf of a TPPSP under permitted agency or referral arrangements.
- (c) Third-party Product and Service Provider (TPPSP). TPPSP is an entity that has entered into an agency or referral arrangement with an NBFC to offer its TPPS to the NBFC's customers.

The practical significance of these definitions lies in the creation of an explicit regulatory perimeter. For banks, both agency business and referral services<sup>1</sup> are now expressly restricted to regulated financial products. For NBFCs, the position is more nuanced: agency business is expressly restricted to regulated financial products by virtue of a note appended to the new definition (which states that the NBFC “*shall enter into an agreement with a TPPSP for sale of only regulated financial products or services*”). Notably, this note was not present in the draft amendments circulated for public consultation in February 2026; therefore, NBFCs that may have been operating on the assumption (based on the draft) that agency arrangements for unregulated products would remain permissible should take immediate note of this tightening. Unlike the corresponding amendments for banks (which establish a comprehensive referral services framework), the Amendment Directions do not contain any operative provision permitting or regulating referral services by NBFCs. The TPPSP definition acknowledges the concept of ‘referral arrangement’, and the NBFC RBC Directions define TPPS by reference to arrangements ‘as permitted under’ the Reserve Bank of India (Non-Banking Financial Companies – Undertaking of Financial Services) Directions, 2025, but no such permission currently exists in the operative text. This signals a potential gap that NBFCs currently undertaking referral-type arrangements should assess carefully to determine whether these have a proper regulatory footing under the revised framework.

## Consolidated and Uniform Framework Across Products

Under the Existing Directions, each distribution activity had its own distinct regulatory architecture: insurance required IRDAI permissions with ring-fencing of risk; HFC insurance agency had dedicated Board-policy, appropriateness, and transparency provisions; mutual fund distribution had operational restrictions; and pension Point of Presence (PoP) services lacked the “fee basis” requirement.

The Amendment Directions replace this with a uniform set of conditions applicable across all distribution activities:

- (a) Insurance distribution. The following conditions apply: (i) the NBFC/HFC must obtain IRDAI permission and comply with relevant IRDAI regulations; (ii) full compliance with the NBFC RBC Directions is required; (iii) the arrangement must be on a fee basis without risk participation, with fees disclosed upfront; (iv) the insurance companies whose products are sold must have robust grievance redressal mechanisms, and the NBFC/HFC must be able to facilitate redressal; and (v) product display on digital channels is restricted to products covered under the arrangement.
- (b) Mutual fund distribution. The following conditions apply: (i) compliance with SEBI guidelines and regulations, including the applicable code of conduct; (ii) full compliance with the NBFC RBC Directions; (iii) the arrangement must be on a fee basis without risk participation, with fees disclosed upfront; (iv) the mutual funds whose products are sold must have robust grievance redressal mechanisms; and (v) product display on digital channels is restricted to products covered under the arrangement.
- (c) Pension fund PoP services. The following conditions apply: (i) only NBFCs (other than Base Layer) that comply with the prescribed capital to risk-weighted assets ratio (CRAR) and have made net profit in the preceding financial year may undertake PoP services; (ii) the arrangement must be on a fee basis without risk participation (now expressly required—previously absent); (iii) strict adherence

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<sup>1</sup> Under the Reserve Bank of India (Commercial Banks – Undertaking of Financial Services) Third Amendment Directions, 2026, ‘Referral Services’ have been defined as “an arrangement under which a bank may refer its customers to a TPPSP by making available information about the financial products or services offered by the TPPSP. Banks may undertake only such third-party product or services under Referral route where continued customer interactions such as distribution, grievance redressal, post sales services are not undertaken”.

to the NBFC RBC Directions and PFRDA guidelines is required; and (iv) the pension funds whose products are sold must have robust grievance redressal mechanisms.

## Migration of Conduct Provisions and Linkage with the NBFC RBC Directions

The Amendment Directions transfer detailed customer conduct, appropriateness, and transparency requirements from the Existing Directions to the NBFC RBC Directions. The notification expressly states that “the regulatory instructions on customer service and conduct aspects shall be consolidated” in the NBFC RBC Directions. This is consistent with the broader harmonisation exercise the RBI has been undertaking since the issuance of 244 consolidated Master Directions in November 2025, which streamlined over 9,000 circulars into function-specific directions. The present amendments represent the next phase, moving beyond consolidation to substantive changes in the regulatory framework.

The migrated provisions include Board-approved policy requirements for insurance distribution, customer suitability assessments, commission and incentive restrictions, transparency and disclosure obligations, and grievance redressal requirements. Compliance must now be tracked under the NBFC RBC Directions. The undertaking of financial services framework thus becomes the *permission layer* (determining what arrangements are permissible), while the RBC framework is the *conduct layer* (governing how the NBFC must behave).

## Wider Ecosystem Perspective

- (a) Multi-regulator compliance. Distribution activities are conditioned on compliance with the relevant product regulator (IRDAI/SEBI/PFRDA). RBI’s structural and conduct requirements apply simultaneously with product-specific regulations. NBFCs should map both sets and identify conflicts, particularly on commission structures (RBI’s anti-incentive stance vs. IRDAI’s permitted slabs) and documentation (IRDAI proposal requirements alongside RBI suitability assessments).
- (b) Digital distribution and embedded finance. The product display restriction (i.e., only products “covered under the arrangement” may be listed on digital channels) means NBFCs cannot display an open marketplace of unregulated products. NBFCs with in-app insurance or mutual fund purchase journeys should ensure these products fall within the agency framework and comply with the full conduct layer under the NBFC RBC Directions.
- (c) Anti-bundling intersection. Even though agency distribution of insurance is permitted, an NBFC cannot make purchase of such insurance a condition for loan approval. The combination of the bundling prohibition (NBFC RBC Directions), explicit consent requirement (NBFC RBC Directions), and fee-basis requirement (Amendment Directions) closes the regulatory arbitrage previously exploited in credit-linked insurance distribution. While the anti-bundling directive was always implied by the RBI, loan origination processes and digital journeys should be audited in light of the express restriction.
- (d) Revenue model impact. The uniform “fee basis without risk participation” standard (particularly for pension PoP arrangements which did not previously require this) may necessitate renegotiation of commercial terms with TPPSPs. Commission-based incentive structures for staff and Direct Selling Agents (DSAs) or Direct Marketing Agents (DMAs) will also require revision under the NBFC RBC Directions.
- (e) IRDAI tension on insurance broking. NBFCs considering the newly available broking route should note that operationalising this model without a separate entity structure may require either a clarification from IRDAI or a carve-out from the restriction on brokers undertaking other business activities. This is a space to watch.

## Comments

The Amendment Directions, read alongside the parallel amendments to the NBFC RBC Directions, represent a material shift in the regulatory architecture governing agency business and third-party product distribution by NBFCs. By consolidating fragmented product-specific regimes into a single agent-principal framework, introducing a defined regulatory perimeter, and explicitly linking permission to conduct, the RBI has signalled its intent to impose greater accountability on distribution arrangements. NBFCs will need to undertake a comprehensive review of their existing agency arrangements, digital distribution journeys, and commercial terms with TPPSPs to ensure alignment with the revised framework before the effective date of 1 January 2027.

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